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MONEY management executive

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PRODUCTS: New buying power over bonds

By Suleman Din

Asset managers and custodians that offer fixed-income assets should be aware that fintech may disrupt their business model, too. For one, startups that claim to cut out the middleman are helping advisors directly purchase bonds at a discounted cost.

SPECIAL REPORT: TECHNOLOGY

Bond Navigator is part of a new breed of product aiming to give advisors institutional buying power through a cloud-based platform.

Bloomberg News

New platforms are disrupting the asset management space.

"Our client is the financial advisor, and we empower them to individually be competitive with the big shops," said Gurinder Ahluwalia, CEO of Bay Area-based 280CapMarkets, the firm behind the official launch of Bond Navigator. "We deliver a bigger pool and pricing access to allow advisors to confidently build portfolios of individual bonds and compete for new client assets."

Outside of a wirehouse, gaining access to a diverse selection of bonds can pose a challenge

BONDS, on page 8

PRODUCTS: Hot new ETF at risk

By Rachel Evans and Annie Massa

Investing in getting high could turn out to be the ultimate downer for buyers of a popular new ETF.

The ETFMG Alternative Harvest ETF, which has raised more than $350 million this year under the MJX ticker, faces an abrupt closure if the institution charged with holding its assets pulls the plug and a replacement isn't found.

It's a big "if" — custodians tend to be in it for the long haul — but U.S. Bancorp is actively reviewing whether it will remain the fund's custodian after the ETF shifted strategies late last year and went from buying Latin American real estate companies to cannabis producers, a person familiar with the matter said, asking not to be identified because the details are private.

That could prove a rude awakening for anyone who's piled into the fund since then. Custodians are typically allowed to terminate their contract with an ETF issuer after a notice period of about 90 days, depending on their agreement. Minus a custodian — a legal requirement under the Investment Company Act of 1940 — a fund's board would be pushed to liquidate the ETF, with shareholders splitting the proceeds.

"The securities have to be there and they have to be

ETF, page 11

OPERATIONS: Fidelty levies Vanguard fee

By Paula Aven Gladych

Fidelity's move to charge new 401(k) plan clients an 0.05% fee on any Vanguard funds held in its retirement plans is causing concern that retirement fee arrangements might become the new norm.

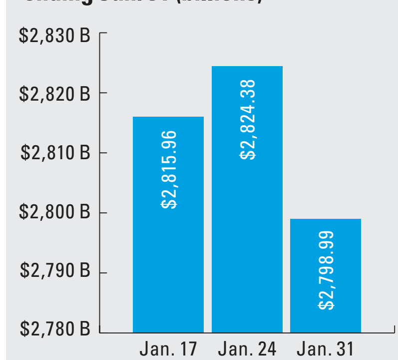
It isn't "normal to have one single fund manager singled out like this," said Jim Keenehan, senior consultant for AFS 401(k) Retirement Services.

Many in the industry don't buy Fidelity's explanation for singling out Vanguard – leveling fees, rather than. a deep rivalry between the two companies amid a fight for market share.

Plan sponsors worry other record keepers will follow suit, limiting the investment options employers are able to offer through their workplace 401(k) plans.

Fidelity, page 10

Money market fund assets dropped $25.4B for the week ending Jan. 31 (billions)



Source: Investment Company Institute

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INDUSTRY HIGHLIGHTS

ETFs SUFFER AS VOLATILITY PROMPTS COLLAPSE OF INVERSE NOTES

A three-day volatility spike sent one Credit Suisse exchange traded product tumbling and halted dozens of other funds, according to Bloomberg.

Credit Suisse said the firm will buy back its VelocityShares Daily Inverse VIX Short-Term ETN (XIV), which had a market value of nearly $2 billion as of late January, after the CBOE jolted nearly three-fold in three days, shedding $3 trillion away from equities on signs that the U.S. economy may be overheating, Bloomberg reports.

XIV fell nearly 89% as a result. The ProShares Short VIX Short-Term Futures ETF, a similar short-volatility fund, dropped 84%, wiping out more than $1 billion in market value.

A dozen other exchange-traded products tracking the VIX stopped trading as the volatility gauge spiked above 50 and later tumbled below 35.

MOBIUS RETIRES AFTER 3 DECADES WITH FRANKLIN TEMPLETON

Franklin Templeton Investments said its executive chairman of emerging markets, Mark Mobius, will retire after more than three decades with the firm.

"There is no single individual who is more synonymous with emerging markets investing than Mark Mobius," said Franklin Templeton CEO Greg Johnson. "My colleagues and I are deeply grateful to have had the opportunity to work alongside a legend, and we thank Mark for his many years of dedicated service and tremendous contributions to the firm."

Franklin Templeton hired Mobius in 1987 to head one of the firm's first emerging markets mutual funds. Mobius led the team through 2016, according to Franklin.

RESEARCH

MANAGERS CONFIDENT ABOUT INSURANCE INVESTMENT OUTSOURCING

Insurance general accounts remain a strong, growing segment of the institutional asset management space, despite a pause in the allocation of assets to third-party, nonaffiliated asset managers, according to a survey.

Cerulli Associates conducted the research and reports the fundamentals of the insurance industry dictate that asset management services for insurance companies will continue to see growth for the foreseeable future.

"Despite the increased activity, it is expected that insurance-related merger and acquisition transactions in the asset management industry will likely cool in the near term," said Alexi Maravel, director at Cerulli. "The majority [81%] of insurance asset management survey respondents indicate that they plan to grow their insurance capabilities organically in the next 12 months, while 82% of respondents report that it is unlikely for them to do an acquisition in the near term."

Managers are pausing to take stock of their investments, deepen client relationships and employ strategic hiring. They are showcasing strategies and capabilities that might be new

ETF Estimated Net Issuance ($ millions)

	1/31/2018	1/24/2018	1/17/2018	1/10/2018	1/3/2018
Equity	14,648	24,557	9,389	13,354	-6,484
Domestic	9,337	18,028	4,417	6,507	-7,955
World	5,311	6,528	4,972	6,848	1,472
Hybrid	56	57	80	89	41
Bond	2,708	981	-333	4,788	1,921
Taxable	2,709	911	-503	4,749	1,660
Municipal	-1	71	171	39	261
Commodity	386	1,412	45	-2	-305
Total	17,798	27,007	9,182	18,229	-4,826

Source: Investment Company Institute

MONEY management executive

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to insurance companies, according to the survey.

PRODUCTS

JP MORGAN LAUNCHES ALTERNATIVE BETA ETF

J.P. Morgan Asset Management rolled out a new ETF with long and short exposure to equity factors with dynamic market beta, the firm said.

The JPMorgan Long/Short ETF (JPLS), which has an expense ratio of 0.69%, employs a rules-based, bottom-up security selection process by using value, quality, momentum and size factors.

"As investor needs and demands evolve, we are constantly looking to innovate and be at the forefront of a rapidly expanding ETF market," said Joanna Gallegos, U.S. head of ETFs for J.P. Morgan Asset Management. "With JPLS, we are proud to contribute to the democratization of hedge fund investing by offering our clients access to institutional-quality products, which helps them build stronger portfolios."

AMERICAN CENTURY UNVEILS FIRST 2 ETFs

American Century Investments is adding two ETFs to its lineup: American Century STOXX 1 U.S. Quality Value (VALQ) and American Century Diversified Corporate Bond (KORP).

The firm's global analytics team, which played a key role in designing the offerings, will partner with American Century's investment teams to spearhead empirical research for the fund in global macro, alpha generation and product engineering.

WISDOMTREE AND ICBC CREDIT SUISSE ANNOUNCE NEW ETFs

WisdomTree and ICBC Credit Suisse Asset Management announced a collaborative effort to launch two ETFs.

The WisdomTree ICBCCS S&P China 500 Fund (WCHN), which has an expense ratio of 0.55%, seeks investment results that correspond to the S&P China 500 Index, according to the firm.

The WisdomTree Balanced Income Fund (WBAL), with an expense ratio of 0.35%, tracks the price and yield performance of the WisdomTree Balance Income Index.

"China offers an attractive mix of high growth rates, a burgeoning middle class, and an economy poised to climb the value chain from export-oriented growth," said WisdomTree Research Director Jeremy Schwartz. "China's influence among global financial markets is likely to grow as the government increases integration among global investors."

TD AMERITRADE EXPANDS COMMISSION-FREE TRADING PLATFORM

TD Ameritrade announced the expansion of its commission-free trading platform, ETF Market Center, with the launch of 24 new ETFs. It also added USAA as a provider. The platform now has 320 total funds.

The firm's RIAs and investor clients will have exclusive access to the funds from iShares ETFs, State Street Global Advisors' SPDR business, USAA and WisdomTree, the firm said.

FIDELITY ADDS 2 FACTOR-BASED INTERNATIONAL ETFS TO LINEUP

Fidelity Investments is expanding its line of factor-based ETFs to reach individual investors and advisors with the addition of two international funds.

The Fidelity International High Dividend ETF (FIDI) seeks to provide investment results that correspond with the total return of dividend-paying stocks as it corresponds to the Fidelity International High Dividend Index, the firm said.

The Fidelity International Value Factor ETF (FIVA) seeks to provide investment results that correspond to the total return of international stocks exhibiting value characteristics, as represented by the Fidelity International Value Factor Index. Both funds have an expense ratio of 0.39%.

"Many investors have expressed strong interest in international dividend and value factor strategies," said Greg Friedman, head of ETF management and strategy at Fidelity. "

PUTNAM TO OFFER 2 ESG FUNDS

Putnam Investments announced plans to reposition two funds to expand its line of ESG offerings, pending SEC approval.

The Putnam Sustainable Leaders Fund, formerly the Putnam Multi-Cap Growth Fund, a multi-cap offering with more than $4.3 billion in assets will focus on companies committed to sustainable business practices, according to the firm.

The Putnam Multi-Cap Value Fund will become the Putnam Sustainable Future Fund, a mid-cap fund with $450 million in assets. The fund will focus on companies with products and services that provide solutions directly contributing to sustainable social, environmental and economic development.

KRANE FUND ADVISORS INTRODUCES CHINA HEALTH CARE ETF

Krane Fund Advisors has launched a new China health care ETF.

The KraneShares MSCI All China Health Care Index ETF (KURE), which has an expense ratio of 0.79%, tracks the performance of MSCI China All Shares Health Care 10/40 Index, which includes publicly listed companies in Mainland China, Hong Kong and the U.S. involved in the health care industry, according to the firm.

Specifically, the index focuses on patent and generic pharmaceuticals, hospital administration, biotechnology, medical equipment production, health care IT and traditional Chinese medicine.

"China's aging population, rising incomes and increasing urbanization may provide a sustained catalyst for growth in China's health care sector," said KraneShares CEO Jonathan Krane. "We believe China's competitive research and development environment and favorable government policies also make China's health care sector particularly attractive."

ASSETMARK IMPLEMENTS J.P. MORGAN GLOBAL FLEXIBLE STRATEGY

A new solution from AssetMark will combine active and passive market approaches with the launch of the J.P. Morgan Global Flexible strategy.

The strategy, available on AssetMark's platform, combines actively managed mutual funds with strategic beta ETFs in an ef-

fort to bring advisors flexibility to capitalize on immediate opportunities and adjust portfolio allocations while more efficiently managing risk at a lower cost, the firm said.

"The balance between active and passive strategies sets the stage for potentially better outcomes for investors by giving advisors a solution with broader flexibility to express conviction views," said Zoë Brunson, senior vice president of investment strategies at AssetMark. "It also provides the potential for higher risk-adjusted returns."

ARRIVALS

HENNESSY ADVISORS APPOINTS NEW PRESIDENT

Hennessy Advisors promoted former executive vice president and corporate secretary Teresa Nilsen to president of the firm.

Nilsen, who has served as executive vice president, chief financial officer and director of the company since 1989, will succeed founder Neil Hennessy in that role, according to the firm.

Nilsen will continue to serve as chief operating officer and corporate secretary, the firm said.

"Nilsen has been instrumental to the company's success over the past 28 years," Hennessy said. "While I will continue in an active role in the company, I am excited to welcome [her] as our new leader. I am confident in her abilities, and I have witnessed firsthand her commitment, focus and integrity. She is both talented and thoughtful."


Teresa Nilsen

Nilsen was named one of *Money Management Executive's* top women in asset management in 2017.

Hennessy will remain the company's chairman of the board and CEO, responsible for leading business strategy, strategic affairs and corporate policy.

Former Hennessy Advisors Controller Kathryn R. Fahy was promoted to chief financial officer with a senior vice president title. Fahy previously served as a public accountant at Deloitte & Touche and senior internal auditor for Knight Ridder, according to the firm.

Brian Carlson, head of distribution at the firm, was appointed to chief compliance officer.

ANKURA TRUST NAMES MANAGING DIRECTOR

The newly formed Ankura Trust Company announced the appointment of Lisa Price, former vice president of escrow administration services at HSBC, as managing director.

In this role, Price will facilitate the execution of services to clients in the non-depositary trust company, utilizing her expertise in handling administration within the indenture trustee, escrow and loan agency.

Price was in charge of the oversight and negotiation of agreements to ensure that transaction roles and responsibilities were feasible in relation to respective policies and procedures in her former positions.

Price's expertise in the administration of indenture trustee and agency services shows how Ankura Trust is committed to building a successful trust company, the company's co-president, Kevin Lavin, said.

FRANKLIN TEMPLETON HIRES EMERGING MARKETS CIO

Franklin Templeton Investments announced Manraj Sekhon, the ex-CIO and director of Singapore-based Fullerton Fund Management, as its chief investment officer.

Sekhon will represent over $45 billion in AUM and oversee more than 80 professionals in the firm's emerging markets equity groups around the world.

The new hire is part of the global investment management organization's effort to further enhance on-the-ground research and establish a stronger global team of local experts in emerging countries, Jenny Johnson, president and COO of Franklin Templeton Investments, said.

Sekhon previously managed various portfolios while at Fullerton Fund. In that role, Sekhon was responsible for driving both the strategy and growth of the business globally.

"We remain committed to bringing high-quality emerging markets investment options to our retail and institutional clients under Manraj's capable leadership," Johnson said.

LORD ABBETT ANNOUNCES LEADERSHIP CHANGES

Following Daria Foster's retirement as managing partner at Lord Abbett, client services partner Douglas Sieg will succeed her in the position as the 10th person to hold the title, according to the firm.

Foster stated her intention to retire in the meeting after 28 years at Lord Abbett, an independent, privately held investment firm with more than $160.4 billion in AUM, landing in the leading position in the U.S. retail market with a focus on the U.S. institutional market.

Over the past several years, Sieg has worked closely with Foster to strengthen various functions of the firm.

Sieg most recently held the title of partner of client services overseeing the U.S. retail, U.S. institutional and international markets, as well as the product strategy, marketing and corporate communications teams.

"I know he has the intelligence, energy, creativity and determination to successfully steer the firm forward," Foster said.

GUGGENHEIM EXPANDS RESEARCH TEAM WITH NEW CONSUMER ANALYST

Guggenheim Securities announced that Ali Faghri, the former senior analyst at global quantitative trading firm Susquehanna International, will join as a senior analyst and managing director.

The addition of Faghri is part of a companywide effort to expand its consumer equity research team. In this position, Faghri will focus specifically on automotive retail.

"He has established a well-respected research product that will complement and expand our existing expertise across our retail team," said Stefano Natella, Guggenheim's director of equity research.

Previously, Faghri held equity research roles focused on the automotive industry at Sterne Agee/CRT Capital, the firm said. MME

News Scan by David Pan and Andrew Shilling

Bonds
from page 1

for advisors.

Large institutions control or manage a majority of the individual securities, strongly influence bond prices and hold trading insights within proprietary systems.

Even custodians offer only a limited pool of bonds at set prices. These factors can inhibit an advisor's ability to compare available bonds in the market, and can also limit pricing transparency.

BROAD UNIVERSE OF BONDS

Bond Navigator allows advisors to search a broad universe of bonds, conduct a thorough evaluation of structural characteristics and make pre-trade pricing comparisons so they understand their true market value.

RIAs can also select offerings they're interested in and transact through the platform, which is supported by three desks (advisor liaison, institutional sales and institutional trading).

Ahluwalia said the big knock against fund distributors, particularly in the fixed-income space, is that the selection of products they offer advisors is often very limited and overpriced.

By giving an RIA a much wider pool than what a custodian can offer, Bond Navigator can help advisors save anywhere from a quarter point to a whole point on a bond buy.

Plus, they have their own bond inventory, so they can do swaps to drive prices down even further.

"Many advisors are paying a point and a half in excess of what they should be paying," Ahluwalia said. "We are focused on solving the challenges for those doing individual fixed income directly.

"We fit into their practice by offering them the benefit of broad access to the fixed-income market, the efficiency of being able to compare bond characteristics on a single screen and the ability to grow their fixed-income business by utilizing our three desks to augment their client service capabilities."

The technology allows for advisors to better compete with banks and wires, he added.

Though bond ETFs have suffered large outflows over the past few months, there is still demand for fixed income among managers, as the Fed is expected to further raise interest rates this year.

Ahluwalia said it's the lack of transparency in the bond markets, as opposed to equity markets, that helped direct the focus for Navigator.

"Most notably," he said, "there are approximately 5,000 equity tickers, while the number of CUSIPs for individual fixed income is in the millions. Each municipality can have dozens of issues with multiple maturities outstanding at any given time. This level of dispersion, driven by geography and limited trading volume in the secondary market, makes price discovery much more challenging for an advisor who is serving a client.

The choices have been limited to what firms are offering to the retail RIA, as opposed to the demand and expectation from the independent RIA who is working hard to serve their end client."

THE DIGITAL TREND

The platform joins a trend of digital tools developed to give advisors better insight into investment products.

A number of custodians are now offering advisors the ability to create portfolio recommendations digitally without the time and expense of consulting with an expert.

"Many folks use technology to drive automation, which can lead to productivity for the firm," Ahluwalia said. "In our case, we're driven by the way technology can create more transparency and a client-centric approach. Our client is the financial advisor, and we empower them to individually be competitive with the big shops. We deliver a bigger pool and pricing access to allow advisors to confidently build portfolios of individual bonds and compete for new client assets."

BEST EXECUTION

Best execution is also a key challenge facing independent advisors, noted Brian Goldberg, managing director at Banyan Tree Asset Management.

"Bond Navigator makes surveying the market and documenting trading information far easier and less time consuming," he added.

"Many advisors are paying a point and a half in excess of what they should be paying. We are focused on solving the challenges for those doing individual fixed income directly."

280CapMarkets CEO Gurinder Ahluwalia

Ahluwalia said advisors interested in buying specific strategies of individual holdings already have access to SMAs in the marketplace that will assemble the portfolio and charge around 25 basis points for that service.

"We provide access and a curated bond offering to fit the need of the advisor's client as they put it forth to us," he said, adding that the platform's liaison desk will provide advice to advisors looking to grow their fixed-income business.

Ahluwalia acknowledged that there may be some tech fatigue among advisors regularly pitched a variety of practice management tools, but he said those that have been handling fixed income directly have been searching for a more transparent alternative.

"Oftentimes they're seeing a limited pool of offerings, and those offerings are not consistently priced in a competitive way," he said. "So it's hard to feel confident in best execution." MME

Digital advice platform launch for defined contribution

By Suleman Din

Within the rush of recent automated financial advice developments has been enterprise digital platform firm NextCapital's announcement that it raised $30 million.

The Chicago-based firm has maintained focus on a particular niche — defined contributions — working to automate and digitize 401(k) plans and rollovers.

This strategy has earned them deals with John Hancock, Russell Investments, Transamerica and State Street, and over $50 million in three rounds of funding to date.

It's a strategy that digital advice firms need to adopt to be sustainable, said Alois Pirker, research director for Aite Group's wealth management practice.

A CROWDED SPACE

"The robo space has gotten crowded, but NextCapital is in a unique spot," Pirker said. "The retirement space is ripe for modernization. They have a good chance of capitalizing on that trend."

Not that there aren't already digital-first firms looking to expand into the DC market; a new crop of platforms aims to provide retirement-age Americans with services that specialize in drawdown strategies.

And there are existing platform providers, including Envestnet, Morningstar and Financial Engines.

But keeping a focus on serving enterprises has been instrumental, said NextCapital co-founder Rob Foregger.

"Our center of gravity is in the retirement space, and our beachhead has been defined contributions," Foregger said. "For so many large financial institutions, the core problem they come to us to solve is retirement. There are so many assets in retirement."

NextCapital "leveraged customers' client bases rather than going after their clients," he added. "We're starting to see more of the incumbents wanting to be prepared for those trying to steal market share from their business models. Custodians increasingly need more tools and capabilities to compete with startups and Silicon Valley players targeting these markets."

"For so many large financial institutions, the core problem they come to us to solve is retirement. There are so many assets in retirement."

Rob Foregger, executive vice president, NextCapital

Matt Streisfeld, principal at venture capital firm Oak HC/FT, which led NextCapital's latest round, said there is a "seismic shift" in the retirement space.

PERSONALIZED ADVICE

"Every plan participant wants to receive personalized savings advice, and all of that needs to be integrated, appropriately aggregated and fed into advisor tools in a modern, digitally interactive way," he said.

Another development feeding that trend is how modern wealth management clients want to seamlessly interact with their retirement assets online or on mobile apps, Pirker added.

"The client doesn't differentiate between DC assets and other retirement savings; it's all assets to them," he said. "They might be under different tax codes, but really, for consumers, it's their assets, and ultimately one set of goals governs that set of assets."

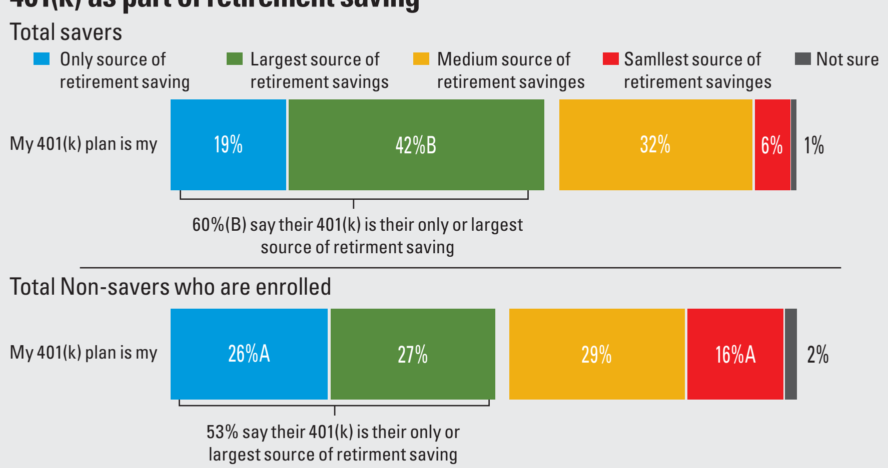
A GOALS-BASED SYSTEM

The opportunity for platform providers like NextCapital, he said, are working with firms to develop a goals-based system where they can put all those assets together and stick with a client through their investing life, from accumulation and rolling over to winding down.

"Nearly everyone has a 401(k)," Pirker said. "That's a large chunk of the assets space, and the participant is starting to get an experience not dissimilar to goals-based wealth management.

"It's an interesting dynamic. We're asking ourselves, how will that play out? What will resonate with clients most, and what will they gravitate toward as an anchor platform?" MME

401(k) as part of retirement saving



Source: Schwab

Fidelity
from page 1

Nicole Abbott, director of communications for Fidelity Institutional and Fidelity Investments, said in a statement, "Fidelity requires all fund families to compensate us for the shareholder and administrative services which we provide on their behalf. A small number of fund families have not compensated Fidelity for certain services, and this pricing change is designed to address that disparity with the intention of providing fairness across all of our business relationships."

She added that Fidelity isn't removing any fund families from its platform but it is requiring that all fund families compensate Fidelity for their services.

"This is not a distribution or revenue sharing fee; this fee is for administrative services that we are not compensated for," she said.

"I was very glad to see Fidelity is going to be implementing this without any impact on plan participants at all," noted Keenehan. "The 0.05% will be directly billed to the plan sponsor vs. passing that through to plan participants by way of an additional asset charge."

He believes, however, that the fee will make Vanguard funds less desirable for new Fidelity clients. The fee applies to plans with assets under $20 million.

WINNING BACK MARKET SHARE

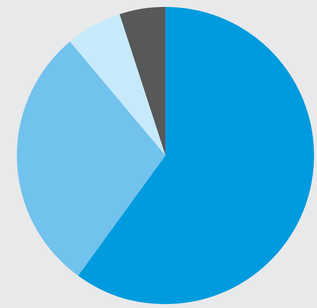
"It is no coincidence that Fidelity lowered the fees on its own suite of passive or index funds, so I think this change is also going to have an impact of opening the door a bit on the Fidelity platform for Fidelity to win back some of the market share they have been losing so rapidly to Vanguard," Keenehan said.

Fidelity lowered its fees on stock and bond index mutual funds and sector ETFs last year. The Fidelity website shows a comparison between its own index and ETFs vs. those of similar funds managed by Vanguard. It highlights that 28 of 29 index funds and sector ETFs had lower expense ratios than their Vanguard counterparts.

Kathleen Connelly, EVP of client experience and relationship management at retirement plan administrator Ascensus, said her company looked at Fidelity's decision with some interest.

Workers' view

Employees rate the importance of their 401(k) benefit



Source: Transamerica

"From our perspective and our own pricing methodology, we have made deliberate decisions not to change the fees based off the investments in the plan." she said.

"One of the interesting things about what Fidelity is doing is they have one position for a plan of $5 million and a different position for one with $30 million. We made decisions that the plan lineup and the size of the plan shouldn't impact the pricing if all other features and offerings otherwise remain the same," she added.

She added that it is important for Ascensus and its partners to ensure that plans under $20 million are not disadvantaged and have the same offerings as larger plans.

"If the plan has 200 participants or 500 participants in it, the cost for us to pick up the phone is still the same," she said.

"If the same plan has average balances of $10,000 or $100,000, the statement production for us is the same. So as a record keeper, we've made decisions in our fee-based business not to allow the investment lineup to impact our cost," she added.

Vanguard partnered with Ascensus in 2011 to launch Vanguard Retirement Plan Access, a 401(k) plan for small businesses.

LOOKING TO DISRUPT

"[Vanguard was] clear with us that we were looking to be a disruptor in the small end of the market and to bring pricing benefits down market. One of the attractions of the relationship is we shared that same philosophy with them," Connelly said.

Fidelity said it handles administrative and shareholder administrative services on behalf of Vanguard and all other fund companies on its platform, including fund setup, transfers, share class conversions, fund closings, communications, trading cash settlement, pricing and account valuation, dividends and distributions, reconciliation, statements and confirmations, 22c-2, tax reporting, e-Delivery, disclosures and sales reporting.

"On top of that, Vanguard has a requirement that plan-level trading activity be submitted by 3 p.m. EST, or an hour prior to market close," Fidelity's Abbott said. "This has created increased complexity for Fidelity and our plan sponsors in that we have had to implement an earlier daily cut-off process, ensuring the trade notifications will be analyzed, reviewed and submitted to Vanguard – minimizing any trades being rejected.

"Each morning, any actual Vanguard fund trading activity that is off from the prior submitted trade notifications requires dedicated Fidelity resources to work with Vanguard to analyze those trades and determine whether the variance was plan-driven or participant-driven activity.

"In addition to the manpower the above large trade notification and trade analysis requires, Fidelity has had to spend a significant amount on technology in order to support these custom services," she said.

Connelly said she wouldn't be surprised if other record keepers follow Fidelity's lead in how it is now treating Vanguard funds on its platform but "we will not be one of them."

Ascensus offers a fee-based model and has for more than a decade.

Throughout her career, Connelly said, she has worked at shops that focused on both larger and smaller plans. It is easier to go from small market to large market than to bring what was built for the large market to a down market, she said. MME

ETF
from page 1

held by one of these entities," said Kathleen Moriarty, who helped set up the first ETF in 1993 and is a partner at Chapman & Cutler LLP. "If no one proper would hold them then they would have to liquidate."

Moriarty is not working with either this fund or on any rival pot ETFs, and was not commenting specifically on MJX.

'BACK AND FORTH'

Both ETF Managers Group, which runs the fund, and U.S. Bancorp declined to comment on whether a termination letter had been sent.

Kim Mikrot, a spokeswoman for U.S. Bancorp, also declined to comment on whether the fund's custody was under review.

"We had a number of back-and-forth letters that are covered by a confidentiality letter that I can't talk about but we have been negotiating the services for all of our funds for the last 12 months," ETFMG's CEO, Sam Masucci, said last week.

He added that the firm is "continuing to work with U.S. Bank" and attributed the "rumors" about custody issues to competitors.

ETFMG entered a five-year custody agreement with the lender in late December, filings show. Masucci was not available to comment on the U.S. Bancorp review when contacted through a spokeswoman on Tuesday.

A spokeswoman for NYSE Group, which lists MJX on its NYSE Arca platform, declined to comment on the fund.

ETFs on the exchange are required to confirm once a year they comply with all regulations that apply to their fund. In the event of a so-called notifiable event — anything major that could affect the fund's operation — the ETF must notify the exchange and public. In addition, the exchange can audit funds it's concerned about.

Being a custodian for a pot ETF is tricky for an institution like U.S. Bancorp to navigate. On the one hand, investor demand for the product is strong, and a custodian, which is often also the administrator and transfer agent, receives a fee for those services.

For example, U.S. Bancorp received $27,887 in the year ended Sept. 30 for serving as administrator for the previous incarnation of the ETF, with compensation based on the fund's average daily assets and an annual minimum, documents show.

At the time, the Latin American real estate ETF averaged just $3.5 million under management. MJX currently has about $410 million in total assets.

REPUTATIONAL RISK

But, a marijuana fund's holdings also pose a reputational — and possibly legal — risk, particularly with a potential federal crackdown on some states' legalization efforts.

MJX tracks a measure that "will not include any companies that are in violation of any United States federal or state laws," documents show.

Its current holdings include Canadian medical marijuana companies Canopy Growth and Aurora Cannabis, which recently agreed to acquire CanniMed Therapeutics, another holding.

At least three other issuers that contemplated starting pot ETFs ran into trouble lining up custodians, people familiar with the matters said.

ETFMG bypassed those start-up issues by converting an existing fund. MJX will change its ticker to MJ from Feb. 9, according to a filing this week.

A money manager known as MJX Asset Management earlier this month filed a suit in Manhattan federal court alleging trademark infringement. Masucci was not available to comment on Tuesday.

GREEN KNIGHT

Of course, U.S. Bank could decide in favor of ETFMG. Or another custodian could step in.

CIBC Mellon Trust has custody of the Horizons Marijuana Life Sciences Index ETF in Canada, where weed will become legal for recreational use later this year.

In the U.S., Bank of New York Mellon is looking after the AdvisorShares Vice ETF. That fund can invest in companies with "current or future revenues from cannabis-related business," although its holdings currently focus more on alcohol and tobacco.

Technically, ETFMG could even decide to be custodian for the fund itself, although that route is subject to strict rules and surprise audits that lawyers say make it almost untenable for most providers.

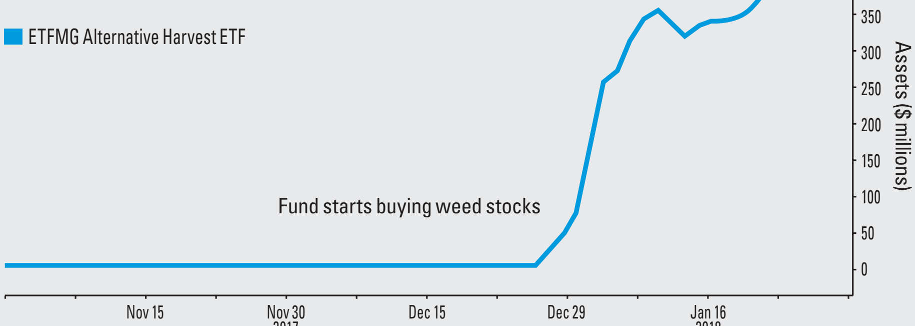
What's clear is that there's a lot of money at stake — for investors, for the manager and for a custodian. All of the ETFMG-branded funds are currently administered by, and custodied with, U.S. Bank.

"A number of competitors of theirs both in the U.S. and outside have reached out to us to say, 'Look, we'd like to talk to you about not just moving MJX but your entire business,'" said Masucci, indicating that a wannabe custodian would have to look at a package deal.

"The benefit really accrues mostly to the operations, which then accrues to investors, if you use one service provider," he added. "If you're not comfortable with that provider then you probably shouldn't have any of your funds there." — *Bloomberg News* MME

From zero to hero

ETF gains popularity after switching its strategy



Source: Bloomberg

Funds with exposure to bitcoin see performance reversal

	Ticker	Fund type	Portfolio weighting % in Bitcoin Investment Trust	YTD % returns	1-yr. % returns	3-yr. % annualized returns	5-yr. % annualized returns	10-yr. % annualized returns	Expense ratio	Net assets
Kinetics Small Cap Opportunities No Load	KSCOX	Open-end	1.32	5.03	29.90	13.92	13.96	7.01	1.66%	$222,096,878
Kinetics Paradigm No Load	WWNPX	Open-end	1.90	3.15	28.92	13.79	13.98	6.21	1.64%	$793,568,600
RENN Glb. Entrepreneurs Fund	RCG	Closed-end	0.61	-2.04	-14.29	-12.51	-11.15	-14.73	0.00%	$6,428,112
Kinetics Market Opportunities No Load	KMKNX	Open-end	8.66	-3.85	40.14	16.25	14.12	6.75	1.64%	$80,260,316
Kinetics Global No Load	WWWEX	Open-end	11.45	-7.97	34.23	11.46	7.25	5.37	1.41%	$14,307,270
Kinetics Internet No Load	WWWFX	Open-end	12.10	-10.54	37.04	12.57	12.85	10.26	1.87%	$153,801,572

Source: Morningstar Direct

The SEC's top 10 concerns about crypto funds

By Todd Cipperman

The SEC has recently raised regulatory concerns about cryptocurrencies, including issues such as valuation, custody and volatility.

The regulator's Division of Investment Management has asked that sponsors refrain from initiating registrations for funds that propose investing in cryptocurrencies and related products.

Dalia Blass, the SEC's director of investment management, cited "significant outstanding questions" about how such funds could comply with applicable laws and regulations.

Despite these concerns, I believe that regulators and the industry will work through these issues and develop rules and best practices that will ensure the growth of the cryptocurrency market in a manner that gives an overall boost to investor confidence.

Here are the top 10 alarms that have been raised by the SEC:

1. Valuation: The SEC asks whether funds could obtain sufficient information to properly value fund assets pursuant to current accounting rules, especially given the "nascent state and current trading volume" in the futures markets.

2. Liquidity: Could funds reduce crypto assets to cash so as to meet daily redemption requests?

In addition, how would funds classify assets under the SEC's new liquidity rule (22e-4)?

3. Custody: The SEC questions how a fund custodian could validate the existence and ownership of cryptocurrency assets, and how funds would address physical security where applicable.

4. ETF creation: Will the creation unit process operate in a manner that ensures funds and authorized participants will limit arbitrage opportunities that harm investors?

5. Volatility: The limited history and volume of the cryptocurrency markets could negatively impact fund operations and still manage to have the same impact on investors.

6. Lack of regulation: Neither cryptocurrency markets nor the providers and issuers in this space are subject to prudential regulation.

7. Market manipulation: The SEC cites Chairman Jay Clayton's concerns over market manipulation and potential fraud.

8. Cybersecurity: Could a potential hack on the cryptocurrency threaten ownership interests and valuation? What safeguards are in place?

9. Disclosure: How would fund sponsors ensure sufficient risk disclosure and transparency in fund prospectuses and other shareholder communications around the products?

10. Suitability: How will broker-dealers and financial advisors ensure their suitability and fiduciary obligations when recommending crypto funds to retail investors? MME

Todd Cipperman is managing principal of Cipperman Compliance Services, a firm that offers a third-party perspective on regulatory compliance.

Which actively managed funds had the strongest flows in 2017?

Amid a strong bull market, active appears to be making a comeback.

Two of the industry's main fund trackers differ in the details, but are directionally similar in recent analyses on flows showing investor interest in active funds last year for the first time since 2014.

Cerulli shows that actively managed funds had inflows of $19 billion, an organic growth of 0.2%. A small increase, to be sure, but these funds did not see outflows "eat into overall growth for the first time since 2014," according to the latest Cerulli Edge report. Meanwhile, Morningstar data shows that active funds had a $7 billion outflow, but it still characterized it as a "relative victory" after the extreme outflows of the previous two years. MME

	Ticker	2017 Flows (millions)	2017 Returns	Expense Ratio	Fund Size (millions)
Strategic Advisers Core Income	FPCIX	$5,939.01	4.71	0.45%	$36,220.78
Dodge & Cox Income	DODIX	$5,800.97	4.36	0.43%	$54,286.76
Bridge Builder Core Bond	BBTBX	$3,696.55	4.13	0.17%	$14,765.91
Fidelity Total Bond	FTBFX	$2,791.66	4.19	0.45%	$31,986.02
Vanguard Target Retirement 2030 Inv	VTHRX	$2,479.54	17.52	0.15%	$32,830.54
Bridge Builder Core Plus Bond	BBCPX	$2,291.63	4.19	0.19%	$7,900.93
T. Rowe Price US Treasury Long-Term	PRULX	$2,240.19	8.22	0.37%	$2,975.66
Fidelity Investment Grade Bond	FBNDX	$2,160.63	3.92	0.45%	$11,613.86
Vanguard Target Retirement 2050 Inv	VFIFX	$2,107.56	21.39	0.16%	$14,634.90
American Funds Global Balanced R6	RGBGX	$2,088.65	14.38	0.52%	$16,057.53
Vanguard Target Retirement 2040 Inv	VFORX	$2,087.07	20.71	0.16%	$23,943.07
Bridge Builder International Equity	BBIEX	$1,947.63	26.69	0.43%	$7,242.95
Fidelity Series Intrinsic Opps	FDMLX	$1,894	24.37	0.01%	$13,948.53
Vanguard Target Retirement 2025 Inv	VTTVX	$1,862.46	15.94	0.14%	$39,231.50
Vanguard Target Retirement 2045 Inv	VTIVX	$1,862.20	21.42	0.16%	$22,006.94
Fidelity Large Cap Stock	FLCSX	$1,790.66	18.15	0.62%	$5,374.40
Vanguard Target Retirement 2035 Inv	VTTHX	$1,766.27	19.12	0.15%	$31,702.03
Vanguard Target Retirement 2055 Inv	VFFVX	$1,642.70	21.38	0.16%	$6,330.92
T. Rowe Price Dynamic Global Bond Inv	RPIEX	$1,607.89	-1.90	0.65%	$2,171.46
JOHCM International Select I	JOHIX	$1,586.75	22.89	1.01%	$7,508.24

Data as of 1/24/18. Source: Morningstar Direct

Mutual fund flows

($ millions)

		Equity									
			Domestic						World		
Date	Total long-term	Total equity	Total domestic	Large cap	Mid cap	Small cap	Multi cap	Other	Total world	Developed markets	Emerging markets
Estimated Weekly Net New Cash Flow											
1/31/2018	4,128	-2,184	-4,806	-2,257	-764	-154	-1,828	197	2,622	2,071	551
1/24/2018	13,018	-1,166	-5,120	-2,423	-691	-300	-1,624	-82	3,954	2,707	1,247
1/17/2018	11,759	2,483	-2,698	212	-1,153	-485	-1,170	-102	5,180	4,072	1,109
1/10/2018	18,116	4,224	-2,669	-1,302	-502	-63	-1,034	232	6,893	5,320	1,572
1/3/2018	-9,241	-14,515	-14,102	-4,730	-2,528	-1,420	-4,560	-863	-413	-639	226
Monthly Net New Cash Flow											
12/31/2017	-28,542	-37,958	-42,727	-18,780	-4,769	-3,208	-12,383	-3,586	4,769	4,306	463
11/30/2017	-4,895	-16,441	-24,067	-5,949	-3,756	-3,439	-7,045	-3,878	7,627	6,303	1,324
10/31/2017	11,021	-15,971	-22,101	-7,360	-2,411	-2,109	-8,375	-1,846	6,130	4,962	1,169
9/30/2017	438	-21,998	-22,612	-7,548	-2,720	-2,046	-9,331	-967	613	1,367	-754
8/31/2017	-517	-16,493	-24,569	-7,242	-3,511	-2,555	-8,205	-3,056	8,075	6,650	1,425
7/31/2017	3,777	-13,782	-25,545	-10,330	-4,487	-2,242	-7,298	-1,188	11,763	11,038	726
6/30/2017	7,558	-9,412	-18,492	-13,228	-3,146	-2,291	1,918	-1,746	9,081	7,504	1,576
5/31/2017	27,288	3,144	-9,243	2,766	-2,379	-2,169	-5,234	-2,227	12,387	8,827	3,561
4/30/2017	306	-12,498	-19,556	-5,057	-4,061	-2,006	-7,056	-1,375	7,058	5,197	1,861
3/31/2017	12,553	-14,101	-13,409	-1,715	-833	-827	-7,620	-2,415	-692	-571	-121
2/28/2017	27,046	3,995	-2,694	-1,235	524	712	-2,069	-626	6,690	5,784	906
1/31/2017	11,156	-7,754	-10,936	778	-792	998	-10,606	-1,314	3,182	2,124	1,058
12/31/2016	-56,071	-33,615	-26,974	-10,891	-977	-816	-12,204	-2,085	-6,642	-5,817	-825
11/30/2016	-52,080	-27,965	-25,929	-8,244	-1,709	-293	-11,058	-4,626	-2,035	-888	-1,147
10/31/2016	-32,792	-37,928	-31,452	-8,576	-5,287	-2,541	-12,213	-2,834	-6,477	-6,258	-219
9/30/2016	-9,028	-22,398	-15,377	-152	-1,750	-1,086	-10,123	-2,265	-7,021	-6,113	-908
8/31/2016	-9,810	-32,290	-24,782	-5,504	-3,355	-1,711	-12,753	-1,459	-7,508	-7,279	-229
7/31/2016	-15,129	-37,685	-31,253	-11,922	-5,015	-3,382	-9,045	-1,889	-6,432	-6,239	-192
6/30/2016	-14,369	-18,895	-14,871	1,099	-4,486	-1,576	-7,812	-2,095	-4,024	-4,027	2
5/31/2016	-5,589	-17,369	-17,342	-4,178	-3,363	-1,188	-7,098	-1,516	-27	-1,217	1,190
4/30/2016	-4,520	-23,767	-19,455	-5,800	-3,381	-2,405	-7,327	-542	-4,312	-3,413	-899
3/31/2016	14,661	-9,971	-9,814	-5,473	-1,428	87	-2,661	-338	-157	1,307	-1,464
2/29/2016	8,492	8,779	-2,332	2,072	-2,871	-351	-525	-657	11,111	10,509	602
1/31/2016	-20,729	-4,927	-15,549	5,587	-5,958	-2,887	-7,339	-4,952	10,622	10,862	-239
12/31/2015	-75,978	-36,660	-25,328	-5,347	-5,156	-4,053	-8,234	-2,539	-11,332	-7,175	-4,157
11/30/2015	-29,964	-20,482	-19,523	-6,164	-3,538	-3,587	-5,973	-262	-959	892	-1,850
10/31/2015	-7,515	-9,724	-11,782	-7,227	-684	-1,965	-2,912	1,006	2,058	3,187	-1,129
9/30/2015	-34,288	-9,233	-14,947	-5,318	-1,056	-1,976	-3,541	-3,055	5,713	7,964	-2,251
8/31/2015	-39,361	-9,458	-17,723	-3,927	-2,703	-1,433	-6,345	-3,315	8,264	11,489	-3,225
7/31/2015	-18,875	-9,291	-27,802	-14,811	-2,607	-992	-9,325	-66	18,511	19,008	-497
6/30/2015	5,417	-2,857	-16,488	-8,620	-926	-754	-5,866	-322	13,631	13,236	395
5/31/2015	3,040	-3,787	-16,703	-5,933	-390	-1,912	-8,099	-368	12,916	12,570	345
4/30/2015	5,810	-1,216	-19,429	-9,967	-2,082	-515	-6,992	128	18,212	15,497	2,715
3/31/2015	14,764	5,077	-8,599	-1,372	-501	-1,013	-6,753	1,041	13,676	10,264	3,412
2/28/2015	29,530	8,951	1,759	2,356	586	-997	-3,123	2,937	7,192	5,902	1,290
01/31/2015	25,706	13,060	6,647	9,751	-1,390	-1,794	-4,227	4,306	6,412	5,425	987

Note: Weekly cash flows are estimates are based on reporting covering 98% of industry assets.

Source: Investment Company Institute

ETF flows

($ millions)

Date	Total equity	Domestic equity	World equity	Hybrid	Total bond	Taxable bond	Municipal bond	Commodity	Total LT MF and ETF flows
Estimated Weekly Net New Cash Flow									
01/31/2018	12,465	4,531	7,933	-178	9,253	7,363	1,890	386	**21,926**
01/24/2018	23,390	12,908	10,482	100	15,122	12,659	2,462	1,412	**40,024**
01/17/2018	11,872	1,719	10,153	-238	9,261	6,804	2,457	45	**20,940**
01/10/2018	17,578	3,838	13,740	-150	18,918	15,762	3,156	-2	**36,345**
01/03/2018	-20,998	-22,057	1,059	-328	7,564	7,055	509	-305	**-14,067**
Monthly Net New Cash Flow									
12/31/2017	9,354	-8,692	18,045	-3,663	19,144	19,468	-324	-528	**24,307**
11/30/2017	13,755	-4,428	18,183	-3,155	21,725	19,904	1,820	-444	**31,881**
10/31/2017	23,947	3,133	20,814	-2,330	38,812	36,204	2,608	-747	**59,683**
09/30/2017	840	-9,635	10,476	-2,454	36,476	33,472	3,004	1,733	**36,596**
08/31/2017	-6,179	-22,843	16,664	-4,163	29,644	25,171	4,473	2,393	**21,695**
07/31/2017	7,354	-12,580	19,934	-2,492	31,770	29,198	2,571	-3,532	**33,099**
06/30/2017	21,868	-8,032	29,901	-2,623	32,760	29,488	3,272	1,528	**53,533**
05/31/2017	23,375	-10,837	34,212	-1,923	36,472	33,157	3,315	-449	**57,476**
04/30/2017	12,246	-8,361	20,607	-2,017	25,271	22,136	3,134	948	**36,448**
03/31/2017	24,592	9,351	15,241	-2,402	37,923	36,676	1,247	-531	**59,582**
02/28/2017	34,737	17,502	17,235	-555	36,052	34,039	2,013	1,867	**72,102**
01/31/2017	20,605	4,998	15,607	-2,915	35,563	31,056	4,507	-637	**52,617**
12/31/2016	23,627	18,763	4,864	-11,743	-4,014	12,287	-16,301	-3,600	**4,270**
11/30/2016	21,701	22,923	-1,222	-7,404	-13,248	-2,114	-11,133	-3,572	**-2,522**
10/31/2016	-24,169	-23,261	-908	-4,778	13,915	12,304	1,611	-87	**-15,119**
09/30/2016	-13,091	-5,895	-7,197	-4,073	24,709	20,692	4,017	496	**8,040**
08/31/2016	-12,290	-9,974	-2,316	-253	30,929	23,625	7,304	-568	**17,817**
07/31/2016	-2,182	414	-2,596	-1,611	33,699	26,933	6,766	2,069	**31,974**
06/30/2016	-14,954	-15,848	894	-3,781	16,822	9,755	7,067	4,327	**2,414**
05/31/2016	-19,843	-14,192	-5,651	-1,383	16,990	9,012	7,978	3,466	**-770**
04/30/2016	-17,065	-12,709	-4,356	505	22,095	16,264	5,832	-674	**4,862**
03/31/2016	11,560	7,528	4,033	3,192	29,439	23,597	5,842	2,148	**46,339**
02/29/2016	-4,995	-9,550	4,555	-1,553	11,940	6,630	5,309	5,664	**11,056**
01/31/2016	-20,607	-27,682	7,075	-11,143	7,692	2,676	5,016	2,010	**-22,047**
12/31/2015	-1,183	774	-1,957	-11,469	-25,055	-31,315	6,260	-664	**-38,371**
11/30/2015	5,884	929	4,955	-4,156	-5,549	-8,425	2,876	314	**-3,507**
10/31/2015	7,006	-576	7,582	-2,394	15,375	12,391	2,984	800	**20,788**
09/30/2015	1,312	-4,725	6,037	-4,890	-10,845	-10,518	-327	-305	**-14,728**
08/31/2015	-14,444	-18,501	4,057	-6,349	-18,145	-16,856	-1,289	495	**-38,443**
07/31/2015	7,759	-14,260	22,019	-1,187	-1,258	-803	-455	-779	**4,536**
06/30/2015	18,101	-6,528	24,629	262	6,329	8,082	-1,753	-470	**24,222**
05/31/2015	9,003	-17,019	26,022	1,442	5,020	5,452	-432	-1,362	**14,103**
04/30/2015	8,311	-34,048	42,359	549	11,033	10,262	771	-459	**19,435**
03/31/2015	34,543	-1,007	35,550	3,608	4,930	3,047	1,883	-943	**42,138**
02/28/2015	27,057	5,924	21,133	3,532	30,318	27,289	3,029	1,728	**62,635**
01/31/2015	-1,885	-14,112	12,228	2,730	17,568	12,371	5,197	3,762	**22,175**

Note: Weekly cash flows are estimates are based on reporting covering 98% of industry assets.

Source: Investment Company Institute